

**METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES
FOR NURSING FACILITIES**

Adjustments - The add-on rate will be inflated annually effective July 1 by the fourth quarter publication of the Data Resources Inc., (DRI) Nursing Facility Marketbasket Index's forecast for the midpoint of the State fiscal year.

The add-on rate will be established prospectively according to the methods described above until a reimbursement rate can be derived from the cost reports which will reasonably reimburse the cost of an economic and efficient provider for ventilator patient care.

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**METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES
INTERMEDIATE CARE FACILITIES FOR THE MENTALLY RETARDED**

PUBLIC INTERMEDIATE CARE FACILITIES FOR THE MENTALLY RETARDED (ICFs/MR)

Reimbursement for public ICFs/MR shall be based on each facility's reasonable costs and shall be paid on an interim basis with an annual retroactive adjustment. Reasonable costs shall be based on Medicare principles of cost reimbursement.

Service Fee - In order to account for the cost of compliance with State law (House Bill 1114), which imposes a service fee on ICFs/MR, an interim allowance of \$20.49 per patient day will be made for FY '97.

The allowance calculation for the service fee will be calculated as follows: (1) establishing the Medicaid gross receipts from a base period, (2) multiplying the gross receipts by 6%, (3) dividing the product by the total Medicaid days during the base period to arrive at a daily amount.

Medicaid gross receipts were calculated by deducting those amounts recorded as patient liability. The number of Medicaid days were also reduced by the proportional number of days attributable to patient liability.

A settlement will be made based on the variance in service fees assessed and the amount of payments attributable to such fees received by the facility.

STANDARD PRIVATE INTERMEDIATE CARE FACILITIES FOR THE MENTALLY RETARDED (ICFs/MR)

A statewide prospective rate of payment shall be determined at least annually for Oklahoma standard private intermediate care facilities for the mentally retarded. The rate for State fiscal year 1997 (July 1 through June 30) will be determined pursuant to these methods and standards and approved by the Oklahoma Health Care Authority in advance of that fiscal year. The rate will be established based on analyses of cost reports and other relevant cost information, the use of national and, where appropriate, Oklahoma-specific trends in costs, including trends in salary levels and changes in minimum wage levels, analyses of the economic impact of changes in law or regulations, and discussions with recognized representatives of the nursing home industry. The rate is at, or above, the level that the Oklahoma Health Care Authority (OHCA) finds reasonable and adequate to reimburse the costs that must be incurred by economically and efficiently operated facilities to the extent specified by 42 U.S.C. Section 1396a(a)(13)(A).

A. COST ANALYSES

The Oklahoma Health Care Authority (OHCA) is principally responsible for implementing the Medicaid program in Oklahoma. OHCA staff will prepare necessary analyses to support the rate determination process, as described below.

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**METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES
INTERMEDIATE CARE FACILITIES FOR THE MENTALLY RETARDED**

1. UNIFORM COST REPORTS

Each Medicaid-participating ICF/MR must submit, on uniform cost reports designed by the OHCA, cost and related statistical information necessary for rate determination.

- a. **Reporting period.** Each ICF/MR must prepare the cost report to reflect the allowable costs of services provided during the immediately preceding fiscal year ending June 30. Where the ownership or operation of an ICF/MR changes during the year or where a new operation is commenced, a fractional year report is required covering each period of time the ICF/MR was in operation during the year.
- b. **Report deadline.** The report must be filed by September 1 of each year. Extensions, of not more than 30 days, may be granted on a showing of just cause.
- c. **Accounting principles.** The report must be prepared on the basis of generally accepted accounting principles and the accrual basis of accounting, except as otherwise specified in the cost report instructions.
- d. **Signature.** The cost report shall be signed by an owner, partner or corporate officer of the ICF/MR, by an officer of the company that manages the ICF/MR, and by the person who prepared the report.
- e. **Audits of cost reports.** The OHCA will conduct a desk review to verify the completeness and mathematical accuracy of all totals and extensions in each cost report. Census information may be independently verified through other OHCA sources. In addition, a sample number of cost reports will be audited independently by an auditor retained by OHCA. Any ICF/MR that is subject to an audit is required to make its records available to OHCA and to any auditor engaged by OHCA.

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METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES
INTERMEDIATE CARE FACILITIES FOR THE MENTALLY RETARDED

2. ALLOWABLE AND UNALLOWABLE COSTS

Only "allowable costs" may be included in the cost reports. (Costs should be net of any offsets or credits.) Allowable costs include all items of Medicaid-covered expense that ICFs/MRs incur in the provision of routine (i.e., non-ancillary) services. "Routine services include, but are not limited to, regular room, dietary and nursing services, minor medical and surgical supplies, over-the-counter medications, transportation, and the use and maintenance of equipment and facilities essential to the provision of routine care. Allowable costs must be considered reasonable, necessary and proper, and shall include only those costs that are considered allowable for Medicare purposes and that are consistent with federal Medicaid requirements. (The guidelines for allowable costs in the Medicare program are set forth in the Medicare Provider Reimbursement Manual ("PRM"), HCFA-Pub. 15.) Ancillary items reimbursed outside the ICFs/MR rate should not be included in the ICFs/MR cost report and are not allowable costs.

3. COMPUTATION OF THE STATEWIDE FACILITY BASE RATE

Cost reports used to calculate the rate were those filed for the year ended June 30, 1996. ("Base year"). A state plan will be submitted when costs are rebased. A description of the calculation of the base year per diem rate is as follows:

A. Primary Operating Costs

1. Determine the weighted mean primary operating per diem by summing all reported primary operating expenses of all ICFs/MR and dividing by total period patient days. Primary operating costs consists of all non-capital costs excluding administrative services expenses, which are described on page 2.3.
2. Determine the audit adjustment per diem to be extrapolated to all reporting facilities based on desk reviews and independent sample audit findings. The audit adjustment is based on an average of the difference between reported and audited cost reports for field audited facilities.
3. Determine the adjusted primary operating per diem by subtracting the audit adjustment per diem (step 2) from the weighted mean primary operating costs per diem determined in step 1.
4. Trend forward the adjusted primary operating per diem from the midpoint of the base year to the midpoint of the rate year using the inflation update factors. The Authority will use the update factors published in the Data Resources Inc., ("DRI") nursing home marketbasket index for the fourth calendar quarter of the previous fiscal year.

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METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES
INTERMEDIATE CARE FACILITIES FOR THE MENTALLY RETARDED

For example, for the rates effective July 1, 1997, the Authority used the update factors for the fourth quarter of calendar year 1996.

B. Administrative Services

An imputed administrative services allowance will be used in lieu of actual owner/administrator salary and non-salary compensation. The imputed administrative services allowance is the state-established limit or value for the purposes of calculating the reimbursement rate. A base allowance of \$2.10 was established in lieu of 1993 reported costs of \$ 2.06 for ICFs/MR . The allowance will be trended to the midpoint of the rate year using the DRI update factor described in A (4) above.

For example, the administrative services allowance for SFY 97 was \$2.41. The \$2.41 was multiplied by the 3.3% update factor published in the DRI index for the fourth quarter of calendar year 1996 to adjust the allowance to \$2.49 for SFY 98.

C. Capital

An imputed allowance per diem for capital will be used in lieu of actual depreciation, interests, and lease related to facilities and equipment. A fair rental value of \$4.23 per bed (assuming 95% occupancy) was derived initially in 1985 by the Department of Human Services from an analysis of construction costs identified from Certificate of Need Applications and consideration of appropriate costs of debt and non-debt financing. The \$4.23 value was updated to the FY96 rate year using the Marshall Swift replacement cost multipliers for facilities with Class C construction (District Comparative Cost Multiplier, Central Region) published in the January 1995 index. The updated value was multiplied by FY94 available bed days (from cost report data) to arrive at the projected replacement costs. The replacement costs were adjusted by an imputed occupancy percentage of .88 and divided by the FY94 occupied bed days to arrive at an allowance per patient day of \$6.20 for FY96. For FY97, the \$6.20 allowance was adjusted by the January 1996 Marshall Swift Index factor of 1.9% to \$6.32. For future rate periods, the allowance will be adjusted by the multiplier published in the January index of the current rate year.

For example, the FY97 allowance of \$6.32 was multiplied by the 1.8% factor published in the January 1997 index to arrive at the FY98 allowance of \$6.43.

D. Adjustment For Change In Law Or Regulation

The Authority also considers possible effects on rate year costs compared to base year costs that might not be fully accounted for by the DRI index described above. Inasmuch as the index is an estimate of actual and forecasted national

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METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES INTERMEDIATE CARE FACILITIES FOR THE MENTALLY RETARDED

rates of change in the price of nursing home goods and services, DRI is not specific to any state. Thus during a given period, it might not sufficiently account for the economic effects of changes in federal laws or regulations which have a disparate impact on Oklahoma, or of changes in state laws, rules or circumstances that only affect Oklahoma.

The following circumstances may cause an adjustment to rate year costs: additional costs incurred to meet new requirements imposed by government regulatory agencies, taxation, authorities, or applicable law (e.g., minimum staffing requirements, social security taxation of 501(c) (3) corporations, minimum wage change, etc.) and implementation of federal or state court orders and settlement agreements.

OHCA will evaluate available financial or statistical information, including data submitted on cost reports and special surveys to calculate any base rate adjustment. These adjustments will become permanent until such time a state plan amendment is submitted to rebase the rates.

E. Statewide Facility Base Rate

The statewide facility base rate is the sum of the primary operating per diem, the administrative services per diem, the capital per diem and the adjustment for changes in law or regulation.

4. ENHANCEMENTS

The Authority may further adjust the statewide facility base rate to include estimates of the cost of enhancements in services that are not otherwise required by law but which the Authority wishes to recommend as the basis for inclusion in the ICFS/MR rates.

Effective May 1, 1997 the State will pay an interim adjustment of \$4.20 per diem for specified staff to facilities who have elected to participate in the wage enhancement program.

Allowable costs include the salaries and fringe benefits for the following classifications: licensed practical nurses (LPNs), nurse aides (NAs), certified medication aides (CMAs), social service director (SSDs), other social service staff (OSSS), activities directors (ADs), other Activities staff (OAS), and therapy aid assistants (TAA). These classifications do not include contract staff.

A settlement will be made based on the variance in the amount of enhanced payments and the amount expended for wages and benefits paid for the specified staff. The settlement will be capped at \$4.20 per day.

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INTERMEDIATE CARE FACILITIES FOR THE MENTALLY RETARDED

Facility-specific target rates were determined for each provider. Fiscal year 1995 costs were used to set the rates. The target rates were calculated as follows:

1. The reported salaries and wages for the specified staff were summed for each facility (specified staff salaries)
2. An employee benefits ratio was determined by dividing total facility benefits by total facility salaries and wages.
3. Total specified staff salaries were multiplied by the employee benefits ratio calculated in 2, above, to determine allowable employee benefits.
4. Specified staff salaries and allowable employee benefits were summed and divided by total facility patient days to arrive at the base year allowable cost per diem.
5. The base year allowable cost per diem for each facility was trended forward by factors of 2.9 percent and 3.1 percent.
6. An adjustment of \$4.20 per day was added to the trended base year costs to arrive at the target rate for each facility.

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INTERMEDIATE CARE FACILITIES FOR THE MENTALLY RETARDED

5. SERVICE FEE ALLOWANCE

In order to account for the cost of compliance with State law (House Bill 1114), which imposes a service fee on ICFs/MR, an interim allowance per patient day will be added to the facility rate.

The allowance for the service fee will be calculated as follows: (1) establishing the Medicaid gross receipts from a base period, (2) multiplying the gross receipts by 6%, (3) dividing the product by the total Medicaid days during the base period to arrive at a daily amount.

Medicaid gross receipts were calculated by deducting those amounts recorded as patient liability. The number of Medicaid days was also reduced by the proportional number of days attributable to patient liability.

A settlement will be made based on the variance in service fees assessed and the amount of payments attributable to such fees received by the facility.

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**METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES
INTERMEDIATE CARE FACILITIES FOR THE MENTALLY RETARDED****SPECIALIZED PRIVATE ICF/MR 16 BED OR LESS**

A separate statewide rate shall be calculated for specialized private intermediate care facilities for the mentally retarded with 16 beds or less (SFs/MR/16), serving severely or profoundly retarded residents. These facilities must meet the higher direct care staffing requirements for licensure established by the Oklahoma State Department of Health for an SF/MR/16 serving severely impaired residents. SFs/MR/16 must serve at least one severely or profoundly retarded resident or one who is mildly or moderately retarded and who is medically fragile or has serious physical or emotional problems. The rate for State fiscal year 1997 (July 1 through June 30) will be determined pursuant to these methods and standards and approved by the Oklahoma Health Care Authority in advance of that fiscal year. The rate will be established based on analyses of cost reports and other relevant cost information, the use of national and, where appropriate, Oklahoma-specific trends in costs, including trends in salary levels and changes in minimum wage levels, analyses of the economic impact of changes in law or regulations, and discussions with recognized representatives of the nursing home industry. The rate is at, or above, the level that the Oklahoma Health Care Authority (OHCA) finds reasonable and adequate to reimburse the costs that must be incurred by economically and efficiently operated facilities to the extent specified by 42 U.S.C. Section 1396a(a)(13)(A).

A. COST ANALYSES

The Oklahoma Health Care Authority (OHCA) is principally responsible for implementing the Medicaid program in Oklahoma. OHCA staff will prepare necessary analyses to support the rate determination process, as described below.

1. UNIFORM COST REPORTS

Each Medicaid-participating SF/MR/16 must submit, on uniform cost reports designed by the Authority, cost and related statistical information necessary for rate determination.

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**METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES
INTERMEDIATE CARE FACILITIES FOR THE MENTALLY RETARDED**

- a. **Reporting period.** Each SF/MR/16 must prepare the cost report to reflect the allowable costs of services provided during the immediately preceding fiscal year ending June 30. Where the ownership or operation of an SF/MR/16 changes during the year or where a new operation is commenced, a fractional year report is required covering each period of time the SF/MR/16 was in operation during the year.
- b. **Report deadline.** The report must be filed by September 1 of each year. Extensions, of not more than 30 days, may be granted on a showing of just cause.
- c. **Accounting principles.** The report must be prepared on the basis of generally accepted accounting principles and the accrual basis of accounting, except as otherwise specified in the cost report instructions.
- d. **Signature.** The cost report shall be signed by an owner, partner or corporate officer of the SF/MR/16, by an officer of the company that manages the SF/MR/16, and by the person who prepared the report.
- e. **Audits of cost reports.** The Authority will conduct a desk review to verify the completeness and mathematical accuracy of all totals and extensions in each cost report. Census information may be independently verified through other OHCA sources. In addition, a sample number of cost reports will be audited independently by an auditor retained by OHCA. Any SF/MR/16 that is subject to an audit is required to make its records available to OHCA and to any auditor engaged by OHCA.

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